Supreme Court, U. S.
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IN THE

Supreme Court of the United States

OCTOBER TERM, 1977

No. 77-624

RICHARD F. NESTLER, *et al.*,
Petitioners,

v.

EXXON CORPORATION,
Respondent.

SUPPLEMENTAL APPENDIX TO PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

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UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

RICHARD F. NESTLER, et al., Plaintiffs,	:	
v.	:	C.A. No. 1686-73
EXXON CORPORATION, Defendant.	:	

APPEARANCES: *For the Plaintiffs:*

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For the Defendant:

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[Filed May 12, 1976]

MEMORANDUM OPINION OF UNITED STATES DISTRICT JUDGE CHARLES R. RICHEY

This lawsuit, involving alleged contract and antitrust violations by the defendant Exxon, is before the Court on defendant's motion for summary judgment and plaintiffs' opposition thereto. The Court has concluded that there are no material facts in dispute and that defendant is entitled to judgment as a matter of law. Accordingly, for the reasons stated in this Memorandum Opinion, the Court will grant summary judgment for defendant.

I. BACKGROUND

For the sake of demonstrating that there are no material facts in dispute, the Court will adopt, for the purposes of this motion only, plaintiffs' somewhat colored statement of the background to this lawsuit, as set forth below:

> "Plaintiff Nestler was an employee of the Kroger Grocery Company, a supermarket chain. In 1966 and 1967, based on his experience and observation, he conceived the idea that he could cut the time and cost of packaging grocery items purchased by customers roughly in half by using polyethylene bags, nested in a special device he invented, and "cuffed," with numbers of bags inserted one within the other, and the entire "process" located at the check-out counter where the customer pays his cash and picks up his groceries. In pursuance of this novel and useful concept and process, he established a factory, developed private financing, hired 40 people, and went into the business of producing the Nestler-May* nested bag concept. Bags were provided to various customers on an ever increasing business-volume basis during 1966 and 1967. As the economic benefits and utility of the Nestler-May process were more

*Plaintiff Donald B. May is a partner with Nestler in the nested bag enterprise. The official name of their partnership is Nestler-May Company. All references hereinafter made by the Court to "Nestler" should be understood as references to the Nestler-May Company.

> widely understood in the industry, Nestler became involved in negotiations with a half dozen major companies, all of whom were interested in finding new market outlets for resins, the raw material from which polyethylene bags are made, which is one of the many petroleum products of substantial value produced by Exxon, and the other companies listed in the various documents in support of this memorandum. Exxon Corporation and its subsidiaries and affiliates was one of the competitiors [sic] to obtain a license to develop and market the Nestler-May process. Exxon Corporation induced and enticed Nestler to drop negotiations with the other competitors and enter into negotiations with Exxon, making the material representations Exxon was the biggest, best financed and oldest petroleum producer in the country, and was keenly interested in developing a new market for resins. In reliance on these representations, Nestler entered into a series of agreements with Exxon's affiliates and subsidiaries,** whereby Exxon was to move forward with financing the cost of manufacturing nested bag machines, and the cost of developing an increasing market for the Nestler-May nested bag process." Plaintiffs' memorandum in opposition to summary judgment, at 7–8.

**The agreements with plaintiffs were entered into by an entity known as Extrudo Film Corporation. Exxon became the successor to Extrudo after the agreements were made.

The agreements referred to above were all made on August 1, 1968. The first agreement was a subsidy arrangement whereby Exxon agreed to make several payments to Nestler to cover excess operating costs. The payments totalled $70,000 and were to be paid over the course of one year. The second agreement was an agency agreement whereby Nestler was made a non-exclusive commission agent for the sale of nested bags, to be produced by Exxon. The third agreement was a license agreement whereby Nestler granted Exxon his patent right to make, use, and sell nested plastic bags.

In 1969, two amendments were made to the subsidy agreement, one accelerating the payment of the total subsidy to Nestler and the other extending further financial assistance to Nestler for a period of six months beyond the time of the original agreement. The agency agreement was also amended in 1969 to provide for a different method for the computation of commission payments to Nestler. None of the amendments otherwise affected the terms or validity of the original contracts.

The subsidy relationship expired, by the terms of the amendment referred to above, early in 1970. Despite some sales of nested bags in the early years of the relationship, the Nestler-Exxon joint endeavor was not financially successful. As a result, the agency agreement was terminated by Exxon, pursuant to the terms of the agreement, on August 1, 1973. The license agreement remains in effect.[1]

[1]The existence and written terms of the three agreements is beyond dispute. See Complaint, ¶5, 6, 7; defendant's exhibits 13, 16, 18. A review of plaintiffs' opposition to defendant's statement of material facts discloses that plaintiffs do not question the existence and written terms of those agreements, but allege that defendant neglected to add pertinent facts surrounding the making of the agreements but not referred to in those agreements. The legal significance of those additional facts is discussed at page 5, *infra*.

In August of 1973, less than a month after Exxon terminated the agency agreement, Nestler filed this lawsuit. The suit alleges both contract and antitrust violations. The alleged contract violations are set forth in the following excerpt from plaintiffs' complaint:

> "Defendant has violated said agreements by failing and refusing to manufacture or cause to be manufactured the nested plastic bag production process and apparatus owned by plaintiffs and exclusively licensed to defendant as outlined hereinabove, and has failed and refused to deliver said bags and equipment to customers on orders developed by plaintiffs as defendant's sales agent, and has failed and refused to develop production capacity or provide capacity forecasts so plaintiffs can further develop the market and service existing and expanding installations, and has failed and refused to provide plaintiffs with any accounting or payment of royalties or sales commissions, and has notified customers that bag orders will not be filled, and otherwise has destroyed plaintiffs business." Complaint, ¶12.

The antitrust allegations are as follows:

> "Plaintiffs allege and verily believe that defendant, together with its affiliate and subsidiary corporations and business divisions, entered into, carried out, and are carrying out an arrangement, conspiracy, concerted effort, and plan of common, cooperative and unified action to obtain and keep the exclusive license to make, use, and vend the Nestler-May sys-

> tem described herein, and then using said patents, processes, and licenses unreasonably to restrain trade and to monopolize and attempt to monopolize trade and commerce among the states by failing and refusing to make, use and vend the Nestler-May system, while at the same time excluding plaintiffs or any other person or company from making, using and vending the system in the U.S., thus depriving the public of the benefits of competition and the benefits of using plaintiffs' system." Complaint, ¶ 14.

Plaintiffs demand judgment in their complaint in the amount of $36,213,250.00.

II. THE CONTRACT CLAIMS

Turning to the merits, the Court quickly disposes of plaintiffs' contract claims.

As to the subsidy agreement, a close reading of plaintiffs' complaint reveals that whatever plaintiffs' alleged violations are, they do not seem to go to the subsidy agreement. Plaintiffs do not deny in the complaint that all of the payments provided for were made and that the agreement expired by its own terms.[2] In his deposition, plaintiff Nestler suggested, apparently for the first time in this case, that he had come to an oral agreement with defendant Exxon that Exxon would continue to make subsidy payments to him until he was able to "break even."[3] This contention is not made in plaintiffs' complaint. In any

[2] *E.g.*, Complaint ¶7, 12; see also defendant's exhibit 13.

[3] Nestler deposition, pp. 306-07, 312-17; see also plaintiffs' opposition to defendant's statement of material facts, ¶6, 8.

event, it is a contention of no value in this case, as the parol evidence rule would prevent its use to modify the terms of the written, final agreement. *See* 30 Am. Jur.2d *Evidence* §1016 (1967). Thus, the Court concludes that defendant fully performed under the subsidy agreement.

Plaintiffs' major contention with respect to the agency agreement is that defendant Exxon refused to fill orders for nested bags obtained by Nestler, as agent, and generally refused to participate in the nested bag project. Once again, the plain terms of the contract establish that Exxon committed no breach. For example, the agreement provided that defendant "may on its sole discretion accept or reject any . . . order procured . . . by Agent."[4] It also provided that "this agreement does not and shall not be deemed to obligate the Company to embark upon the manufacture or sale of such bags or any product mentioned herein nor to continue any such manufacture or sale for any period of time."[5] Plaintiffs also apparently object to the termination of the agency agreement, but, again, the plain terms of the contract establish either party's right to terminate, without cause, after five years.[6] The exhibits in this case establish that defendant's termination was perfectly proper within the terms of the contract.[7]

As to the license agreement, the only violation seemingly asserted by plaintiffs is defendant's failure to pay royalties as provided for by that agreement. The payment of royalties is dependent upon production of nested bags

[4] Defendant's exhibit 16, ¶3.

[5] *Id.*, ¶11.

[6] *Id.*, ¶14.

[7] See *Id.* and defendant's exhibits 53, 54, 55.

under the agreement,[8] so plaintiffs' claim necessarily relates back to defendant's failure to produce. As noted above, defendant was not obligated to produce nested bags. Thus, there was no violation of the royalties provision of the licensing agreement.

Defendant makes a convincing argument that it is also entitled to summary judgment because of the absence of indispensable parties to this case. Defendant alleges that plaintiffs have assigned their patent rights to certain parties and the rights to all profits made from the nested bag system to other parties. Plaintiffs counter with "powers of attorney" for some of the parties involved, but the legal significance of those "powers of attorney" is not discussed by plaintiffs, and the other parties remain unaccounted for in this case.

This Court need not reach the "indispensable parties" issue, however, because, as noted above, it has concluded that defendant has shown beyond doubt that all of the terms of the contracts involved were met. Plaintiffs' attorney seemed to recognize as much by failing to make substantive responses to that portion of defendant's memorandum in support of summary judgment dealing with the contract claim. Plaintiffs' attorney also admitted at oral argument that it was the antitrust portion of his complaint, not the contract claims, on which he pinned his only realistic hopes for success.

For all of the above reasons, the Court concludes that plaintiffs' contract claims have no legal merit; defendant is therefore entitled to summary judgment.

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[8]Defendant's exhibit 18, ¶3.02.

III. THE ANTITRUST CLAIM

While requiring slightly more sophisticated analysis than the contract claims, the plaintiffs' antitrust claim is also devoid of legal merit. Summary judgment for defendant is therefore warranted.

The Court begins by noting that plaintiffs' complaint alleging an antitrust violation by defendant does little to enlighten defendant or any other reader as to the nature of or underlying facts supporting the claim. This vagueness in itself could, as defendant claims, very well provide cause for dismissing this complaint, not only for a failure to satisfy the pleading requirements of F.R.Civ.P. 8, *see Heart Disease Research Foundation v. General Motors,* 463 F.2d 98, 100 (2d Cir. 1972); but also for a failure to meet the general pleading requirements in antitrust cases, *see Beegle v. Thomson,* 138 F.2d 875, 881 (7th Cir. 1943), *cert. denied,* 322 U.S. 743 (1944). However, the Court need not reach these issues, in light of the conclusions reached below.

The first time the plaintiffs' antitrust claim was set forth in any kind of detailed fashion was in their opposition to the instant motion for summary judgment. The critical portions are as follows:

> "During 1966 and 1967, Nestler had obtained a machine from the G.T. Scheljdahl Company (now Sheldahl) of East Providence, Rhode Island, at a cost of $23,000.00, and was using that machine in producing the bags as a part of the Nestler-May process. In early 1967, Nestler had disclosed to Exxon the nature of his process to the extent necessary to carry on preliminary negotiations. Exxon, once learning that Sheldahl was the only

source of the nested-bag machine, secretly and without the knowledge of Nestler and prior to concluding negotiations with Nestler, went to Sheldahl and apparently entered into an agreement so that Exxon had a monopoly of this sole source of nested-bag machines. Thereafter, without disclosing this maneuver to Nestler, Exxon went ahead and negotiated various contracts and license agreement with Nestler, all as set out in the exhibits and statements of issues submitted herewith. Once Nestler had entered into agreements giving Exxon an exclusive license in the United States and a non-exclusive license throughout the world to make, use and vend the Nestler-May process, with the exception that Nestler could compete with the process within the United States, Exxon undertook a calculated and planned program to squeeze Nestler out of business and destroy Nestler-May as a going concern, leaving Exxon with monopoly control of the United States license, and Nestler shut off from obtaining a nested bag machine to use in competition with Exxon, all as set out in the verified complaint and other affidavits and documents submitted herewith." Plaintiffs' memorandum in opposition to summary judgment, at 8–9.

Thus, the elements of the antitrust violation alleged by plaintiffs are that Exxon first arranged to gain sole access to nested-bag machines and then entered into agreements with Nestler, all the while planning not to use the license rights it acquired, thereby eliminating Nestler as the only competition in the nested bag field.

Plaintiffs pin their hopes on a legal determination that non-use of a patent right by the lawful holder of that right can, in certain circumstances, give rise to an antitrust violation. But theirs is a difficult row to hoe. A non-use doctrine in antitrust law is nearly non-existent. As one commentator has noted, "a patent owner is ordinarily free not only to keep his invention to himself but also to refrain from using it at all." E. Rockefeller, *Antitrust Questions and Answers*, at 352 (1974). Another commentator has stated:

> ". . . [I]t is clear that the non-use of patents could not be *per se* an antitrust offence or a bar to relief against infringement: any such rule would be unworkable. This is because there are many good [economic] reasons for not practising particular patents." A.D. Neale, *The Antitrust Laws of the United States*, at 340 (1970).

Moreover, the Supreme Court "has consistently held that failure of the patentee to make use of a patented invention does not affect the validity of the patent. *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405. . . ." *Special Equipment Co. v. Coe*, 324 U.S. 370, 378–79 (1945). *See also United States v. L.D. Caulk Co.*, 126 F. Supp. 693, 708 (D. Del. 1954).

It is true that there have been proposals for more stringent regulation of non-use of patent rights. Thus, the *Report of the Attorney General's National Committee to Study the Antitrust Laws* (1955) makes the following recommendation:

> "We believe that an improper purpose unduly to restrain trade, to monopolize or attempt to monopolize through individual nonuse

> should give rise to antitrust liability. On the other hand where there is no affirmative showing that the purpose or effect of nonuse is unreasonably to restrain trade, to monopolize or attempt to monopolize, the patentee's conduct does not transgress the antitrust laws." *Id.* at 231.

It appears that the Supreme Court has not faced the precise issues posed by the recommendation above. Nevertheless, even if this Court were to adopt the above recommendation as its guiding principle in this case, plaintiffs could not succeed; for, upon careful examination of all of the pleadings and exhibits in this case, the Court has concluded that plaintiffs have not produced any evidence upon which a finder of fact might conclude that defendant's purpose in failing to use its patent right was to perpetuate an unreasonable restraint of trade.[9] Plaintiff has not met

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[9]For example, defendant posed the following interrogatory to plaintiffs in the course of discovery:

> "Referring to paragraph 13 of the complaint, identify each 'affiliate' with which defendant allegedly engaged in 'concert of action,' the manner in which each such affiliate engaged in any such 'concert of action' in each instance, and the date or dates when any such 'concert of action' occurred in each instance." Defendant's interrogatory number 15.

In response, plaintiffs alleged that defendant and its subsidiaries "were constantly in a concerted exchange of information and activity respecting plaintiffs and their process." Plaintiffs proceeded to describe a number of business contacts concerning the nested bag process between various affiliates and subsidiaries of Exxon and, in some cases, plaintiffs themselves. None of these alleged incidents would even begin to establish any sort of conspiracy among affiliates and subsidiaries of Exxon. Plaintiffs also attach supporting docu-

(continued)

its burden in attempting to rebut defendant's motion for summary judgment. See F.R.Civ.P. 56(c); *see generally* 10 Wright and Miller, *Federal Practice and Procedure* §§2727 and 2729.

Finally, the foregoing discussion pertaining to nonuse of patents and the antitrust laws can be viewed as academic when it is realized that not only have plaintiffs failed to make an affirmative showing to support their claim, but also the factual linchpin upon which their whole antitrust case rests has been disproven beyond any doubt by defendant. As noted above, the critical elements of plaintiffs' claim are: (1) defendant blocked access to nested bag machinery, and (2) defendant purposefully declined to use its exclusive rights under the license in order to "squeeze out" Nestler, its only potential competitor in the nested bag field. As to the first element, defendant has shown, through exhibits to its motion for summary judgment, that, in 1973, Nestler requested a price quotation from the company which makes the nested bag machinery and received that quotation and an offer to sell.[10] Nestler apparently never took up the offer. Plaintiffs have not countered or explained this evidence. As to the second element, the licensing agreement specifically provides that

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[9] (Continued)
ments to their answer. All but two of these documents were written to or by plaintiffs themselves. Of the remaining two, plaintiff received a copy of one when it was written; the other is a letter from Exxon to a former customer. None of these documents begin to establish any sort of conspiracy. See defendant's interrogatory number 15 and plaintiffs' response thereto, attached to defendant's motion for summary judgment.

[10]See attachments to defendant's reply memorandum in support of summary judgment.

if Exxon did not produce nested bags, *Nestler would have the right to do so.*[11] Thus, the license was exclusive only so long as Exxon produced nested bags; once Exxon decided not to produce the bags, the monopoly created by the patent ceased to exist, at least to the extent that Nestler could then "compete."

For all of the above reasons, it is clear to the Court that defendant is entitled to summary judgment. An Order in accordance with the foregoing will be issued of even date herewith.

/s/ Charles R. Richey
Charles R. Richey
United States District Judge

Date: May 12, 1976

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[11] Paragraph 2.02 of the licensing agreement, see defendant's exhibit 18, reads as follows:

> "The license granted under Paragraph 2.01 of this Article II shall be exclusive except for NESTLER's Foreign Patent Rights which shall be non-exclusive, subject to the *reservation by NESTLER of a non-exclusive, non-transferable license in the United States under NESTLER's United States Patent Rights and Technical Information to make, use and sell Nested Plastic Bags, to practice Process and to extend to NESTLER's customers the right to use said Nested Plastic Bags under NESTLER's United States Patent Rights, Technical Information and Trademark Rights in the event and for such period of time that EXTRUDO shall not commercially manufacture, have manufactured for it or sublicense such manufacture under Paragraph 2.03 hereinbelow.*" (Emphasis added.)

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

RICHARD F. NESTLER, et al., Plaintiffs,	:	
v.	:	C.A. No. 1686–73
EXXON CORPORATION, Defendant.	:	

[Filed May 12, 1976]

ORDER

This case comes before the Court on defendant's motion for summary judgment. In accordance with the Memorandum Opinion in this case issued of even date herewith, it is, by the Court, this 12th day of May, 1976,

ORDERED, that defendant's motion for summary judgment be, and the same hereby is, granted, and the complaint in this action be, and the same hereby is, dismissed with prejudice.

/s/ Charles R. Richey
Charles R. Richey
United States District Court